



**ASIA AND PACIFIC  
DEPARTMENT**

# **Unlocking Structural Transformation in South Asia**

**Rahul Anand**

**Session 2: Based on Chapters 8-10**

**JANUARY 6, 2023**

# Outline

## Part II. Unlocking Structural Transformation

### **Chapter 8: A Diversification Strategy for South Asia**

*Weicheng Lian, Fei Liu, Katsiaryna Svirydzenka, and Biying Zhu*

### **Chapter 9: Reviving Trade and Investment**

*Shanaka Jayanath Peiris, Weicheng Lian, Pragyan Deb, Patrick Blagrove, and Naihan Yang*

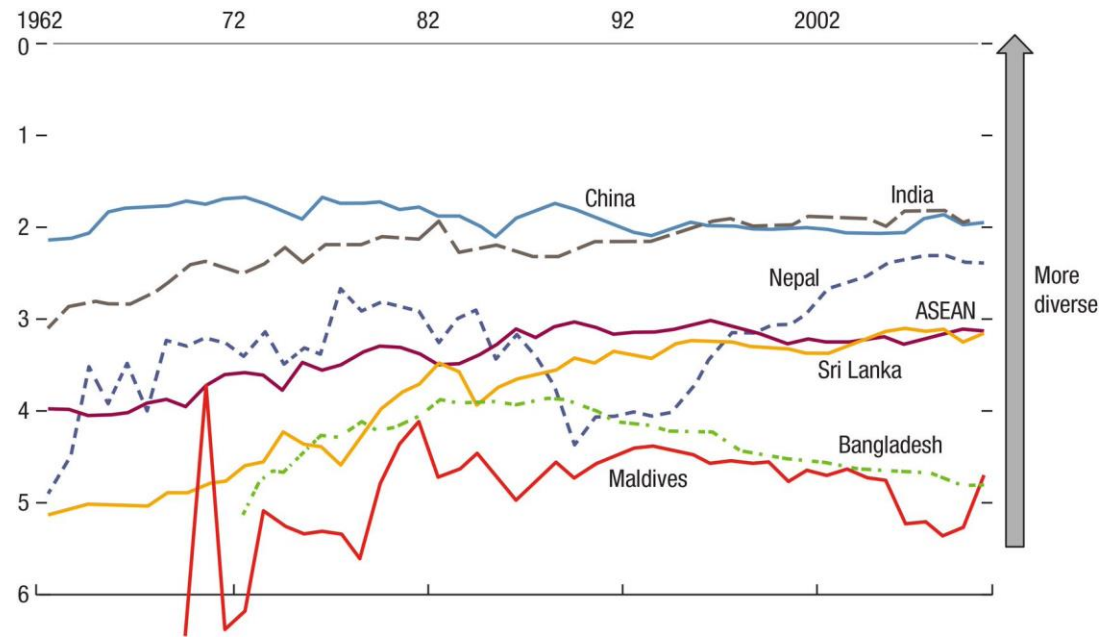
### **Chapter 10: Fostering Regional Trade Integration between South Asia and East Asia**

*Ganeshan Wignaraja*

# Diversification and Complexity

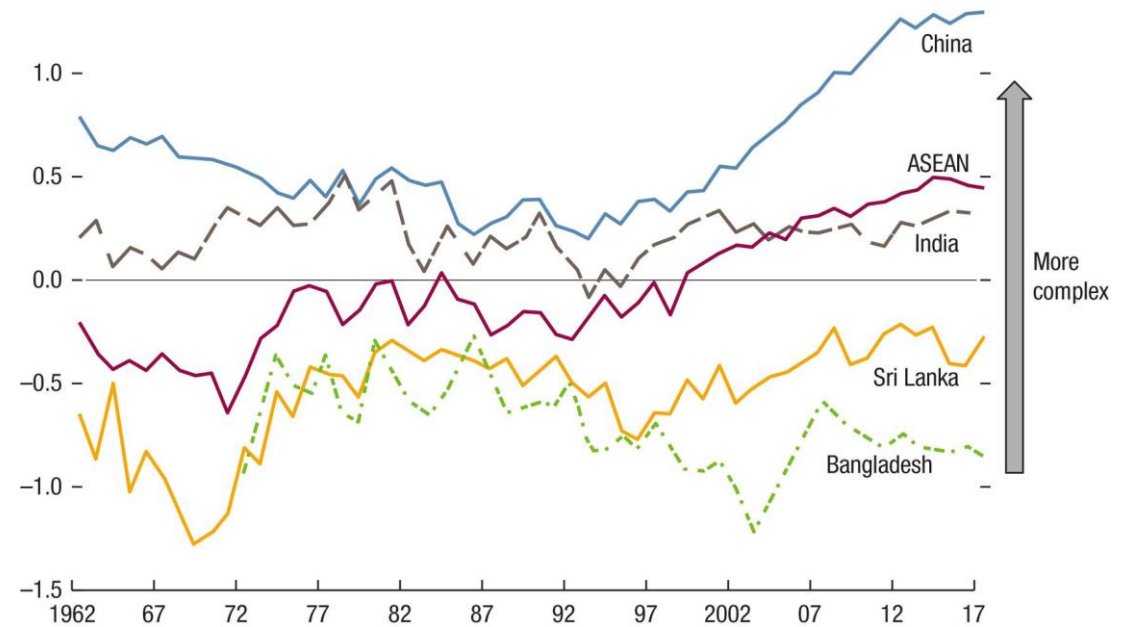
# Enhancing diversification and complexity

## Export Diversification



Source: IMF 2014.  
Note: ASEAN = Association of Southeast Asian Nations.

## Economics Complexity

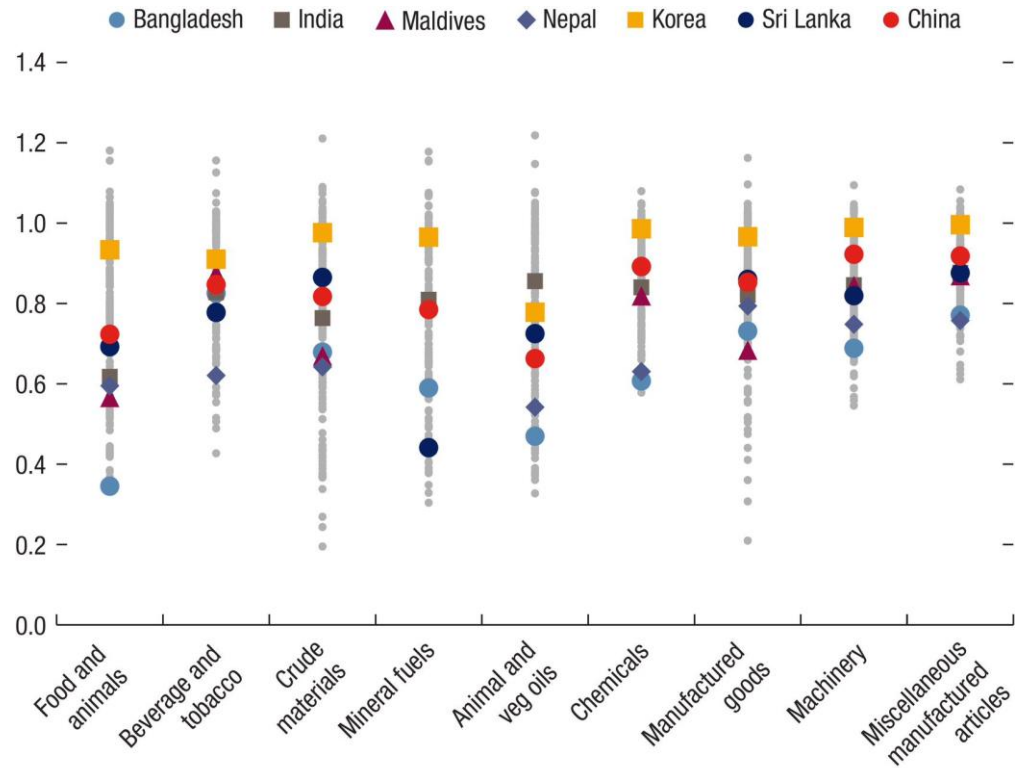


Source: The Atlas of Economic Complexity.  
Note: ASEAN = Association of Southeast Asian Nations.

# Improving quality and moving to more complex products

## Moving up the quality ladder

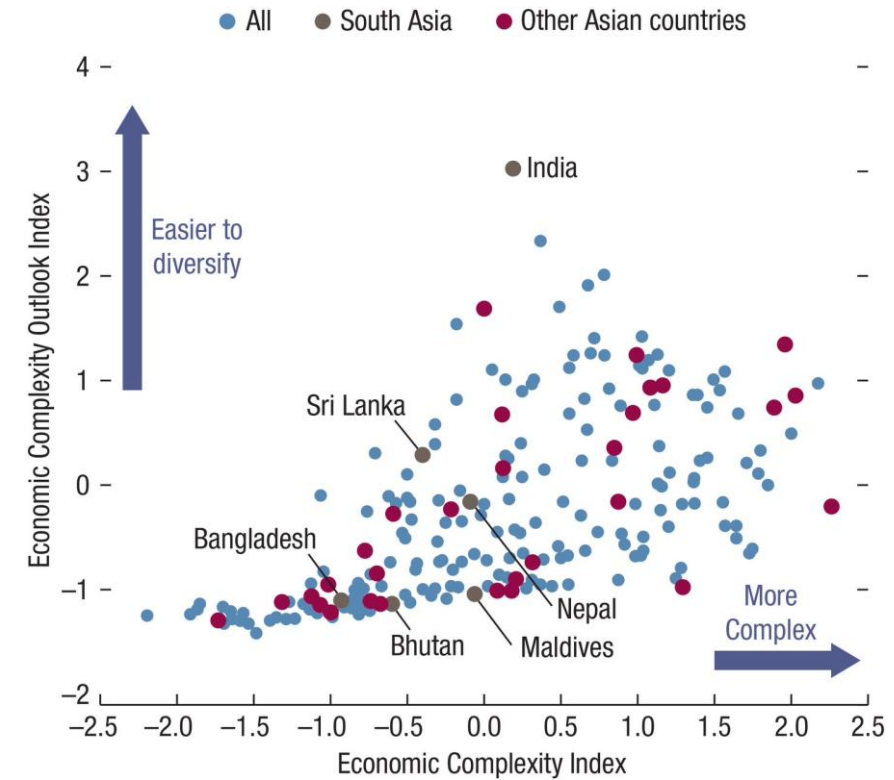
Quality Ladder, 2014



Source: IMF 2014.

## Improving complexity

Economic Complexity Outlook Index, 2016

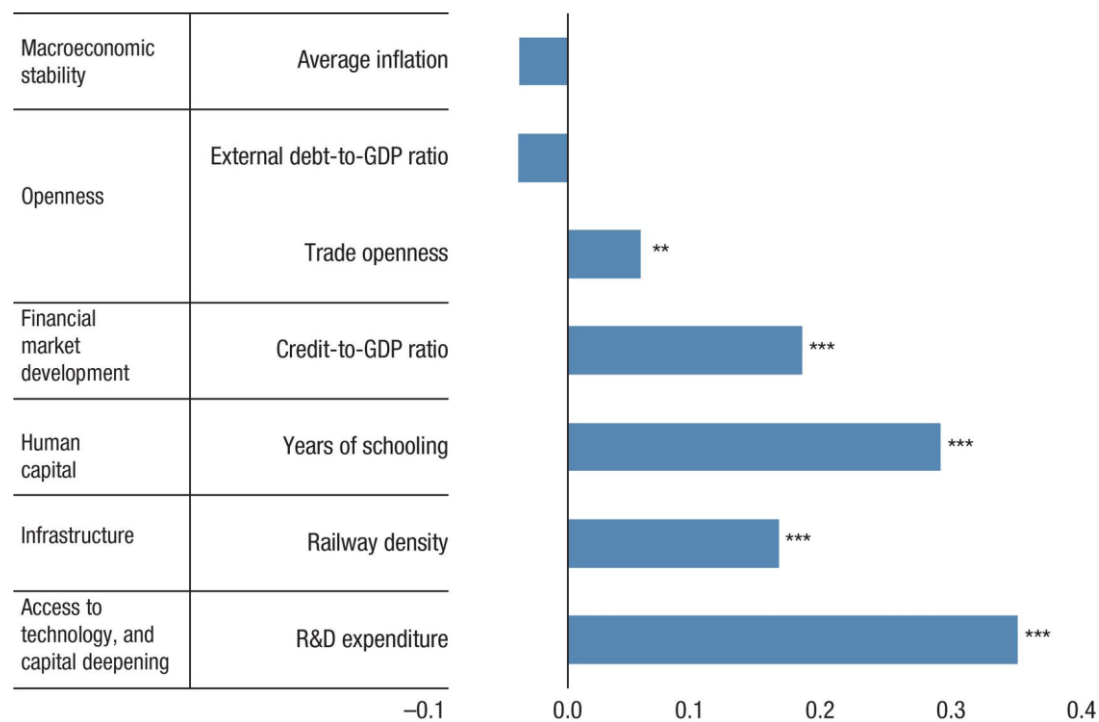


Source: The Atlas of Economic Complexity.

Note: The Economic Complexity Index measures how diversified and complex a country's export basket is. The Economic Complexity Outlook Index measures the ease of diversification for a country, captured by how many complex products are near a country's current set of productive capabilities.

# Drivers of complexity and diversification

## Impact of structural indicators on economic complexity

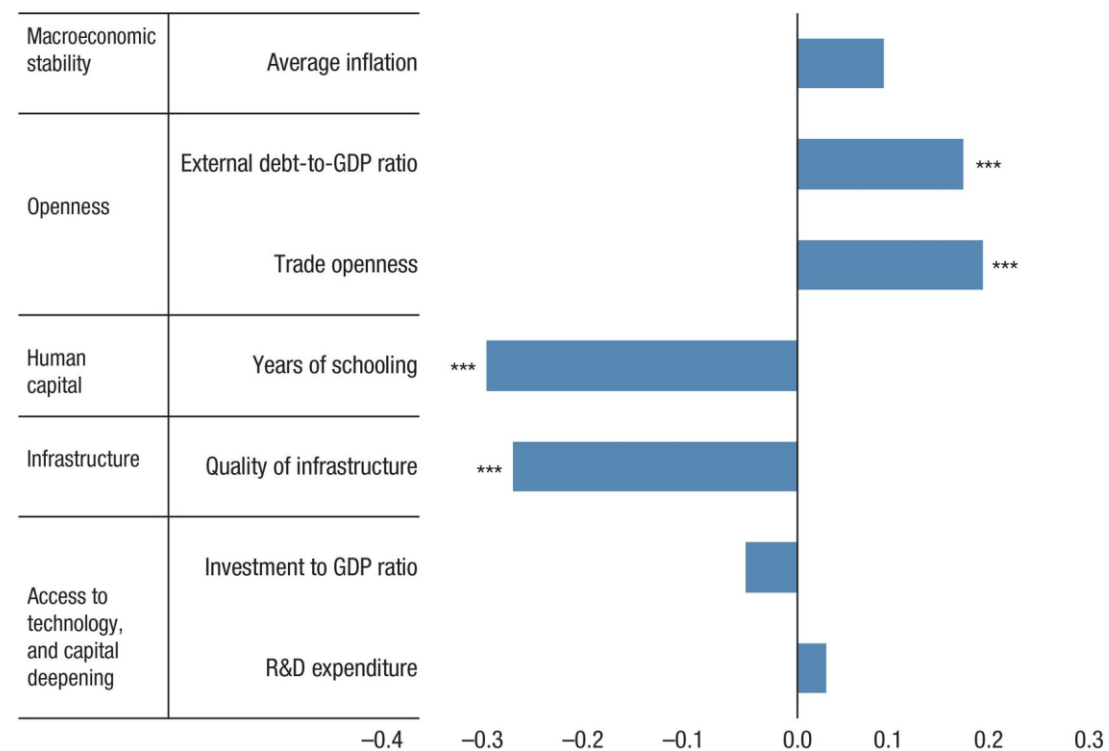


Source: Authors' calculations.

Note: Positive values mean the factor leads to higher complexity. R&D = research and development.

\*\*\* $p < 0.01$ ; \*\* $p < 0.05$ ; \* $p < 0.1$ .

## Impact of structural indicators on export diversification



Source: Authors' calculations.

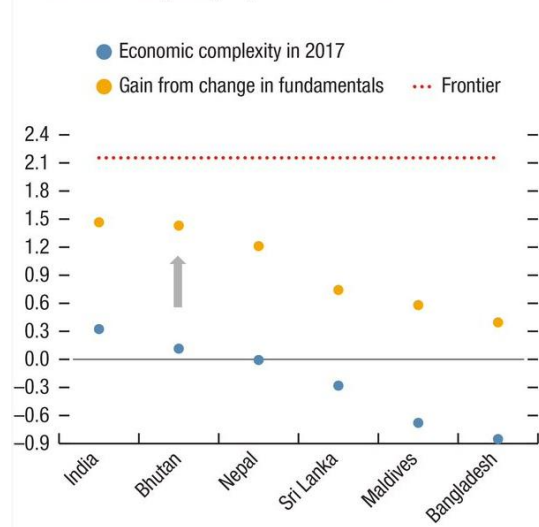
Note: Negative values mean the factor leads to higher diversification. R&D = research and development.

\*\*\* $p < 0.01$ ; \*\* $p < 0.05$ ; \* $p < 0.1$ .

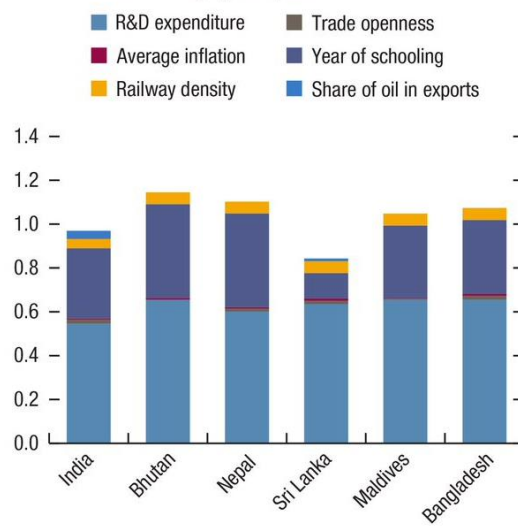
# Potential gains from improvement in underlying structural indicators

## Economic complexity improvement scenario

1. Economic Complexity Improvement Scenario

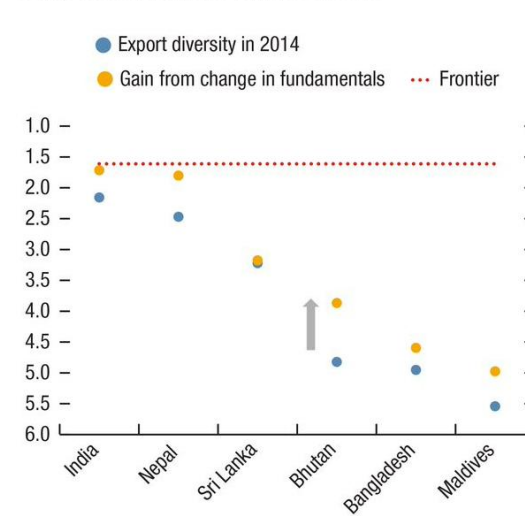


2. Breakdown in Gain, by Component

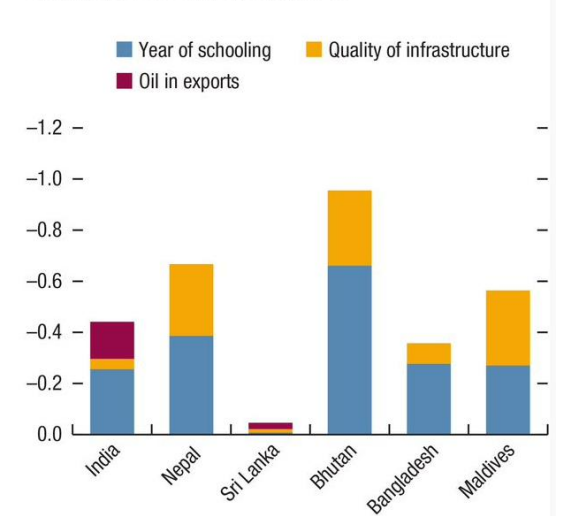


## Export diversity improvement scenario

3. Export Diversity Improvement Scenario



4. Breakdown in Gain, by Component



Source: Authors' calculations.

Note: R&D = research and development.

## South Asia: Key policy messages

- South Asia successfully leap-frogged from exporting raw agricultural products to garments and services.
- South Asia can increase diversification and move to more complex products by:
  - Improving education
  - Investing in capital and infrastructure
  - Supporting innovation and R&D
  - Opening to trade

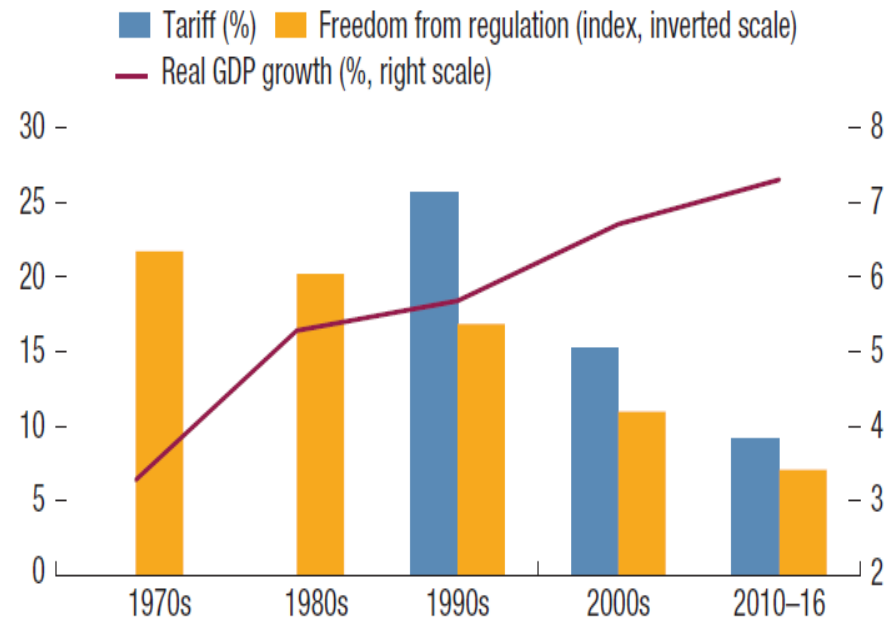


# **Trade and Value Chain participation: Trade, GVCs, productivity and growth**

# Context

## Reforms led to growth take-off

Growth, Trade Liberalization, and Deregulation in South Asia

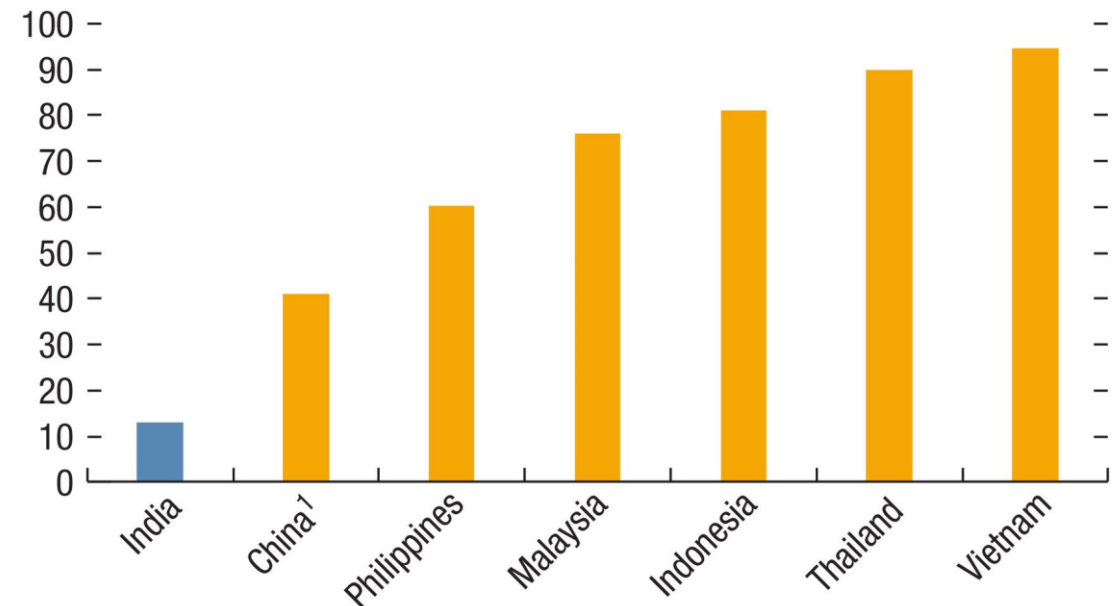


Sources: Fraser Institute, Human Freedom Index; World Integrated Trade Solution database; World Economic Outlook database; and IMF staff calculations.

## However, job creation has remained low

Cross-Country Job Creation

(Percent of increase in the working-age population, as of 2018)

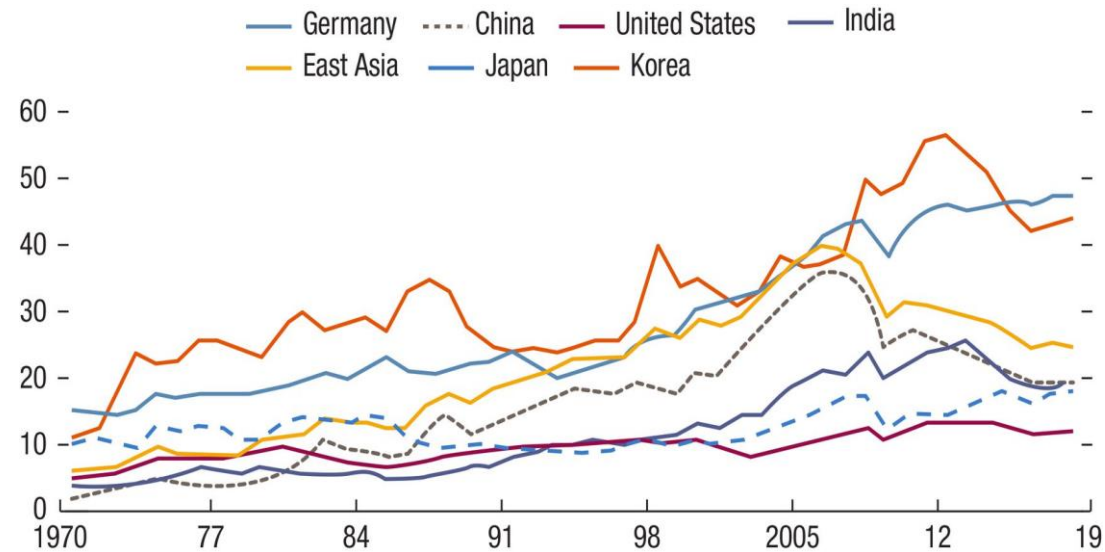


Sources: United Nations *World Population Prospects 2019*; International Labour Organization; and IMF staff calculations.  
 Note: Data are calculated as the change in employees in 2018 or the latest over 2000 as a percent of change in the working-age population (15–64 years) in 2018 over 2000.  
<sup>1</sup>As of 2017.

# With low export and manufacturing export intensity

## Exports Intensity

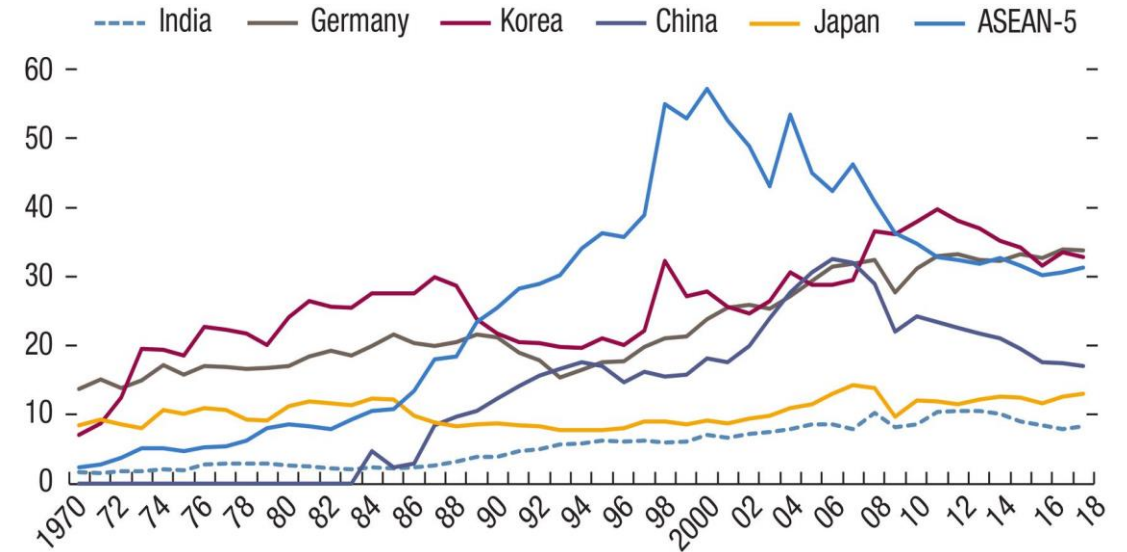
(Exports of goods and services as a percent of GDP)



Source: World Bank's World Development Indicators.

## Manufacturing Export Intensity

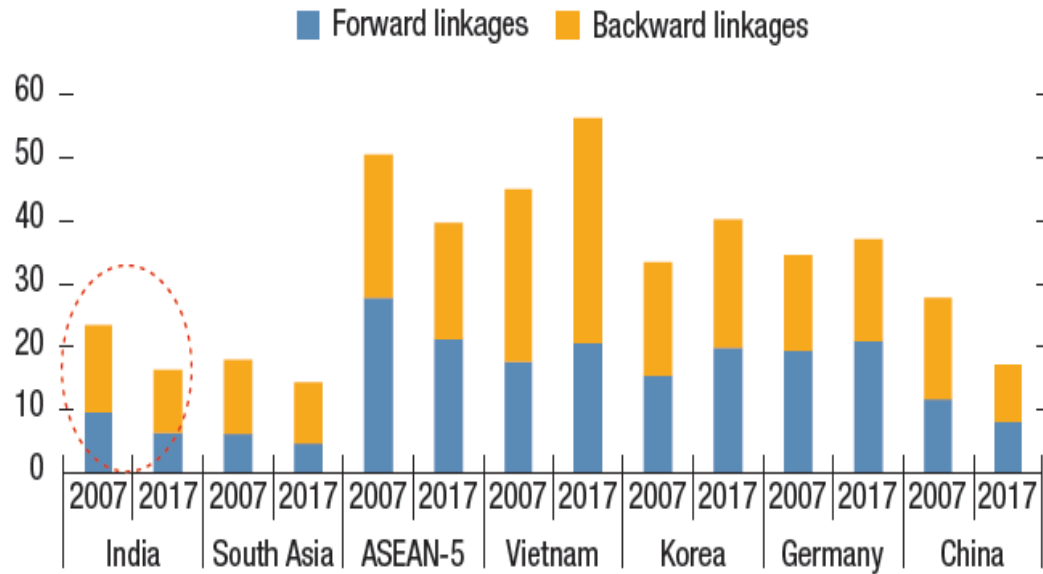
(Export of manufacturing goods as a percent of GDP)



Sources: World Bank's World Development Indicators; and IMF staff calculations.  
 Note: ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand.

# ...and limited GVC participation

**1. GVC Participation of the Goods Sector**  
(Percent of GDP)



**2. GVC Participation of the Services Sector**  
(Percent of GDP)

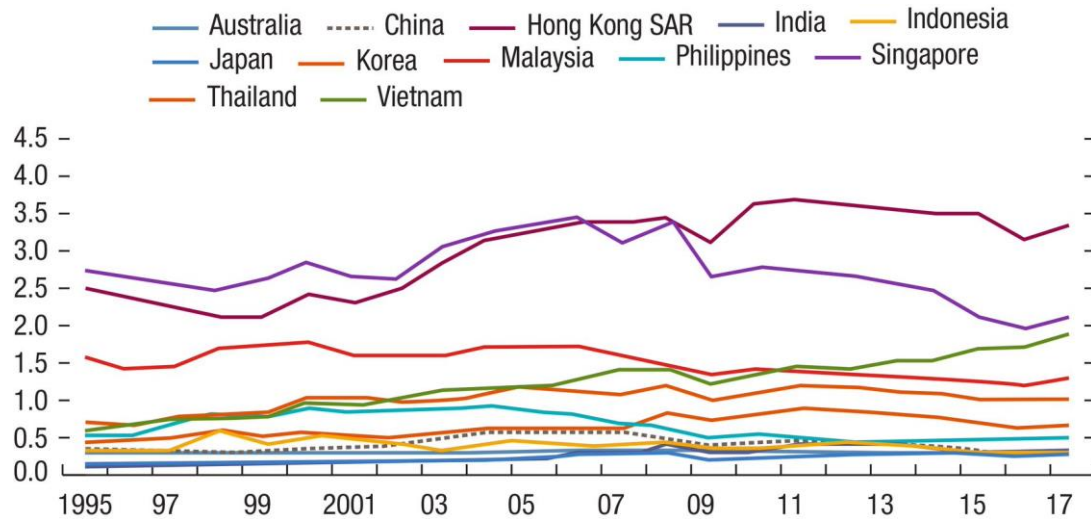


Source: Asian Development Bank database.

Note: ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand; GVC = global value chain.

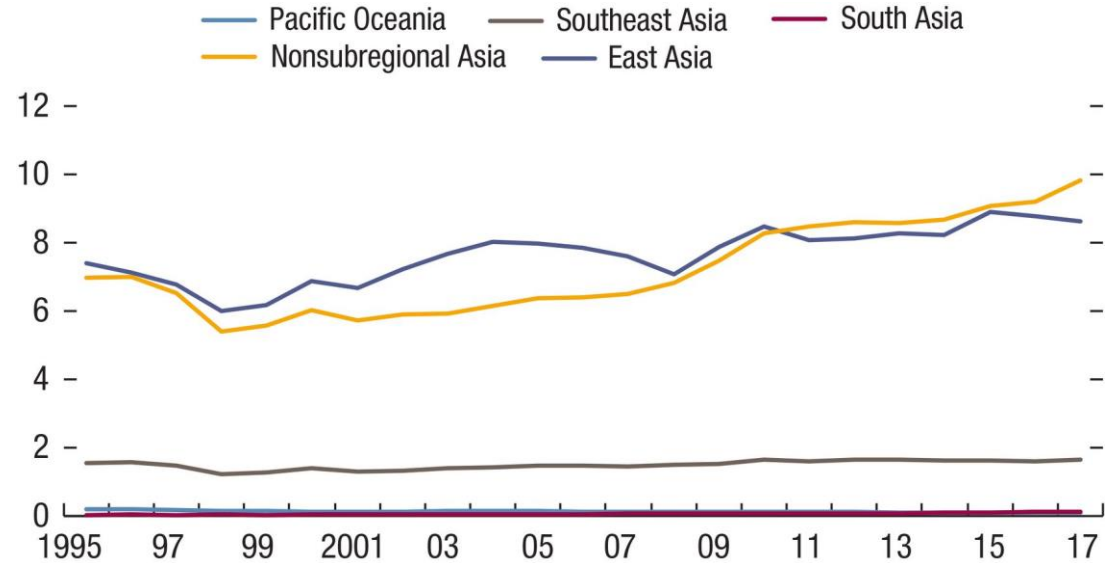
# Trade remains low

## Trade Openness in Asia (index)



Sources: IMF, World Economic Outlook database; IMF, Direction of Trade database; and IMF staff calculations.

## Asia's Subregional and Interregional Trade (Percent of global trade)



Sources: IMF, World Economic Outlook database; IMF, Direction of Trade database; and IMF staff calculations.

# Raising productivity to speed up growth convergence

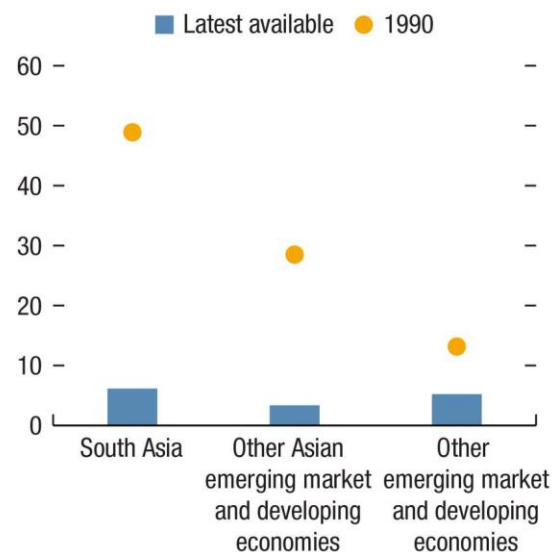
## Drivers

- Growth
  - Lower tariffs
  - FDI inflows
  - GVC participation
  
- Sectoral productivity
  - Trade liberalization (reducing tariffs)
  - GVC participation

## Challenges

1. Applied Import Tariff Rates

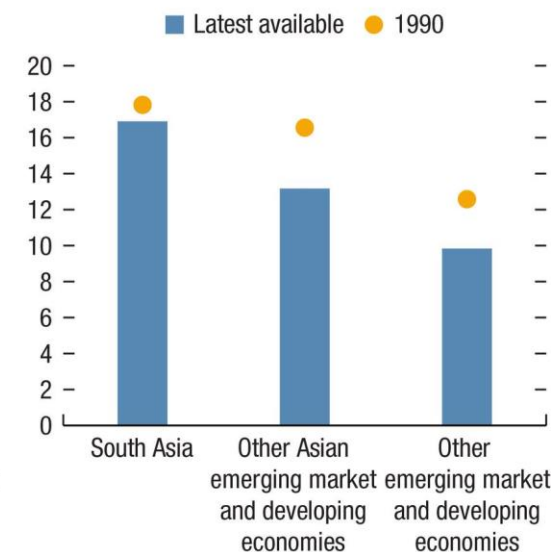
(Weighted average, percent)



Source: Furceri and others 2019.

2. Nontariff Barriers Index

(Weighted average, percent)

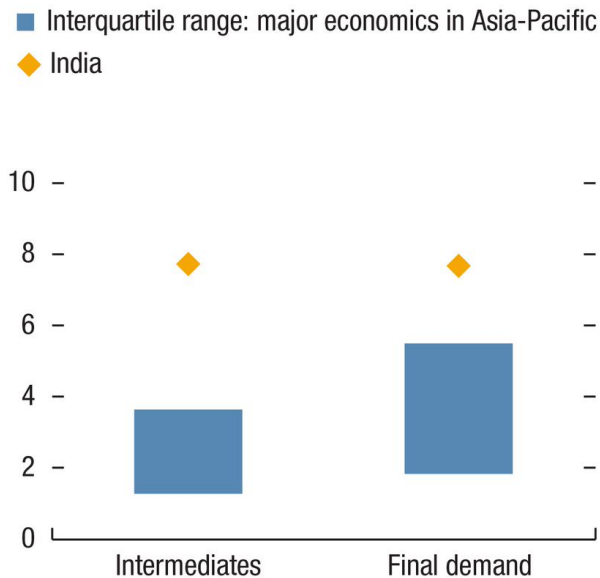


Source: Estefania-Flores and others 2022.

# Gains from Reforms: India

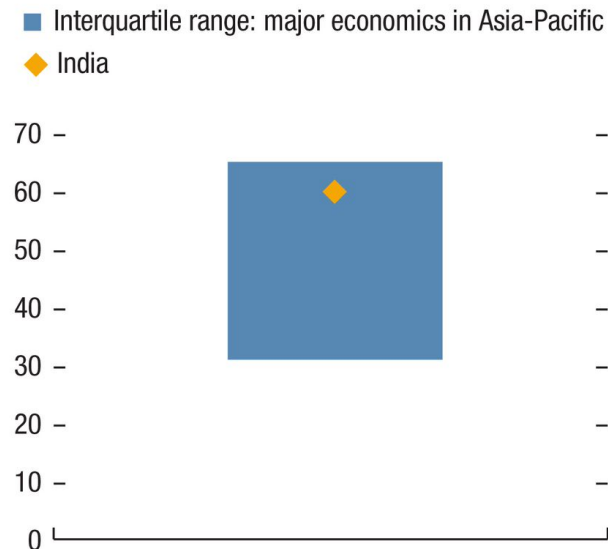
## Average Effective Tariff and Tariff-Equivalent Nontariff Barriers

**1. Average Effective Tariffs across Type of Goods**  
(Import-weighted, percentage points)



Sources: World Integrated Trade Solution; UNCTAD-Eora Global Value Chain database; and IMF staff estimates.

**2. Average Tariff-Equivalent Nontariff Barriers on Services Imports**  
(Import-weighted, percentage points)



Sources: Fontagne and others 2016; UNCTAD-Eora Global Value Chain database; and IMF staff estimates.

## Two reforms scenarios

- Scenario 1:** Tariffs on imports of intermediate goods lowered to 25th percentile
  - Real GDP increases by around 2 percent
  - Real exports increase by around 37 percent
- Scenario 2:** NTBs on imports of services lowered to 25th percentile
  - Real GDP increases by around 2 percent
  - Real exports increase by around 36 percent

## Policy Implications

- Trade and higher GVC integration can boost productivity growth and be fostered through continued tariff, NTB and FDI liberalization.
- Regional integration and connectivity (BIMSTEC, SAARC or SASEC) and liberalization can help South Asia benefit as did China's rise to neighbors through regional supply chains.
- Manufacturing exports and GVCs could provide payoff in terms employment generation and be supported by “service revolution”.
- Structural reforms would facilitate the adjustment of labor reallocations, access to finance and firm entry/exit and scale.



## Topics for discussion

- Understanding the impact of COVID-19 and Russia's war in Ukraine on trade
  - Key emerging challenges and opportunities for South Asia
- Learning from the experience of Korea
  - Priorities and sequencing of reforms to boost exports, diversification, and GVC participation
- Fostering trade integration
  - Key challenges of regional trade agreements

**Thank you!**